The West’s Evaporating Middle Class

10:30—11:45 a.m.
Friday, March 10, 2006
Sturm College of Law/Frank J. Ricketson Law Building

A sea change in the social structure is underway in the West as many communities experience dramatic growth in the ranks of the wealthy and a simultaneous influx of lower income residents. Meanwhile, the middle class experiences stagnant wages and evaporating opportunities. Presenters explore the social, environmental, and planning implications.

Moderator: **Eric Bergman**
Director
Office of Smart Growth, State of Colorado
Denver, Colorado

Panelists: **Elizabeth Garner**
State Demography Office
Department of Local Affairs
Denver, Colorado

**Patty Silverstein**
President
Development Research Partners
Littleton, Colorado

**Gary Severson**
Executive Director
Northwest Colorado Council of Governments
Silverthorne, Colorado
The West’s Evaporating Middle Class

Smart Growth Workshops

Office of Smart Growth
Website: www.dola.state.co.us/smartgrowth

OSG Listserv
Receive notices for workshops, trainings, new publications, grant opportunities
Post local government RFQs/RFPs

Colorado Heritage Planning Grants
- Regional and multi-jurisdictional
- Innovative projects that could serve as models for other areas
- Target high-growth regions
- Address impacts of growth
Model Land Use Code for Colorado’s Small Communities

Model Land Use Code for Colorado’s Counties

Wildland Fire and Fuel Management Plan

Water Efficient Landscape Design

Social and Economic Effects of Second Homes

From Brownfields to Greenbacks: A Smart Growth Approach
Let’s Meet Our Contestants!

Elizabeth Garner
State Demographer, Colorado Department of Local Affairs

Gary Severson
Executive Director, Northwest Colorado Council of Governments

Patricia Silverstein
President, Development Research Partners

Colorado Demography Office
www.dola.colorado.gov/demog/

• State Agency
  – Responsible for population data needed by state agencies.
• Department of Local Affairs
• Decennial Census support and use
• Estimates
  – annual population totals by county/municipality.
• Forecasts
  – Expected population totals and those by age and gender in the future by county.

OUTLINE
• What is “Middle Class”
• Is there a problem if it disappears?
• What do data imply for Colorado
• What are the factors influencing the data
• Income vs. Costs
• Conclusions
What Is Middle Class?

- No official definition
- In terms of income distributions
  - Middle 20%
  - Inequality between income groups
  - Wealth Issue – not in the data.
- Sociological or Economic – ability to meet needs.

Is There a Problem if the Middle Class Disappears?

- First Question: where did they go?
  - Did they leave completely? – U - curve
  - Did they move up or
  - Did they move down

- Struggling city neighborhoods lack positive role models for children.
- Key middle income workers like police officers, nurses and teachers lose connection to the communities they serve.
- Lack of a stepping stone - makes the work of moving people out of poverty more difficult.
- Important part of the fiscal base.
- Civic engagement.
- Bridge between concerns of low and high income households.

Source: Brookings Institution – Metropolitan Policy Program

Proportion of CO Households by Income Group in 1999$

Source: US Census Bureau

Distribution of Household Income by Region 2005 Estimate

Source: Colorado Business and Economic Forecasting, 2005
Income Inequality

- Degree of income inequality can be measured using a "Gini Coefficient" that ranges from 0 to 1 (perfect equality – perfect inequality)
- Colorado in 1999 Gini = .439 ranked 22 of 50 states
- US in 1999 Gini = .459
- Best was Alaska and Utah at .408 and .409
- Worst was New York and Louisiana at .488 and .476
- Range in Colorado was .37 in Douglas to .496 in San Miguel


Factors Influencing Income Distributions in Colorado

- Age Structure
- Occupational Structure
- Educational Attainment

Distribution of Households and Income by Household Age Group, 1999

Source: Census 2000

Age Structure

- Currently fewer older households
- More households in the highest earning age groups
- Similar through Western US
- Future aging of the “baby boomers”
- Wealth effect

Occupational Structure

Colorado Jobs by Average Pay in 2004

Source: CO Dept. of Labor and Employment
**Occupational Structure**

Projected Annual State Job Growth, 2002-2012, by Average Pay in 2002

Source: Federal Reserve Bank of Kansas City, 2005

- BLS projection of continued shift out of ag. and goods-producing into service-producing
  - High tech.
  - Business services
  - Health and social services
- Concentration of jobs at higher wage rates.
- Growth projected at both the higher and lower ends of pay range.
  - Software and computer design industries
  - Tourism
- High wage jobs create low and middle wage jobs
- Potential to increase income inequality

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**Educational Attainment**

- CO was ranked top 3 in 2000 in US for educational attainment.
- Higher education - higher wage.
- Future Demand — Bureau of Labor Statistics
  - Complex thinking
  - Complex communication skills
  - 9 if 15 occupations projected to grow fast require a vocational award or higher

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**Educational/Skills Attainment**

- Will supply of high skilled workers keep up with demand?
  - If not wages could be pushed further up.
- If the supply of workers at the mid and lower levels of the pay scale exceed demand
  - Wages could be held back.
- Education and workforce training/retraining
  - Allowing for wage growth throughout pay scale

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**“Middle Class Lifestyle” Costs of Living**

- Housing is single largest component of consumer expenditures at about 30%
- At the median household income of $47K in 1999, over 35% of the households were spending more than 30% of their income on housing - Census
- Over one third of the counties are in situations where the income required to buy the median valued home is greater than the median household income - Census
Between 1990 and 2000 (inflation adjusted)
– Median home value increased 37% (ranged from declines to over 100% by county)
– Gross rent increased 13%
– Household income increased 10%

Change in Median Household Income vs. Change in Home Values and Gross Rent from 1990 to 2000 (adjusted for inflation)

<table>
<thead>
<tr>
<th>County</th>
<th>Median Home Value % Change</th>
<th>Gross Rent % Change</th>
<th>Household Income % Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Larimer</td>
<td>98%</td>
<td>79%</td>
<td></td>
</tr>
<tr>
<td>Delta</td>
<td>96%</td>
<td>78%</td>
<td></td>
</tr>
<tr>
<td>Gilpin</td>
<td>94%</td>
<td>75%</td>
<td></td>
</tr>
<tr>
<td>Mineral</td>
<td>92%</td>
<td>74%</td>
<td></td>
</tr>
<tr>
<td>Elbert</td>
<td>90%</td>
<td>72%</td>
<td></td>
</tr>
<tr>
<td>Clear Creek</td>
<td>90%</td>
<td>71%</td>
<td></td>
</tr>
<tr>
<td>Garfield</td>
<td>86%</td>
<td>70%</td>
<td></td>
</tr>
<tr>
<td>Denver</td>
<td>84%</td>
<td>60%</td>
<td></td>
</tr>
<tr>
<td>Archuleta</td>
<td>83%</td>
<td>59%</td>
<td></td>
</tr>
<tr>
<td>Grand</td>
<td>83%</td>
<td>55%</td>
<td></td>
</tr>
<tr>
<td>Boulder</td>
<td>82%</td>
<td>41%</td>
<td></td>
</tr>
<tr>
<td>Chaffee</td>
<td>80%</td>
<td></td>
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</tr>
</tbody>
</table>

Median HH as a % of HH income needed to afford median home, 2000

Is it a coincident that the least affordable counties are in the mountain resort and scenic mountain areas?

Findings

• The middle class has shrunk but it has become upper-middle class
• Income inequality
  – poverty concentrated
  – bi-polar
• Factors influencing income distribution (age and occupational structure current and future)
  – Education and workforce development.
• Costs - Housing
  – Jobs – housing mix (housing for all wage ranges)
  – Second homes.
  – Retirees / “baby boomers”

Source: US Census Bureau
Middle-class is difficult to define on a universal level, but a definition advanced by Tucker Hart Adams, a Colorado Springs-based economist, and paraphrased by me, seems to be applicable in the rural resort region of Colorado:

**Working people who earn enough to handle the basics of life with a little left over.**

Kathy Williams, the Director of the Colorado Division of Housing and the co-chair of the Colorado Blue Ribbon Panel on Housing describes the middle-class as:

**Teachers, Tellers, and Cops**

The middle-class includes those that teach our kids, safeguard our money and protect our streets. In other words, those people who make our communities work.

In the resort areas of Colorado, a better description of the fate of the middle-class may be the:

**Rural Resort Region’s Displaced Middle Class**

The displacement of the middle-class in places like Aspen, Vail, and Breckenridge can be directly attributed to the cost of housing. Let the numbers do the talking:

<table>
<thead>
<tr>
<th></th>
<th>Average Housing Cost*</th>
<th>Income to Qualify</th>
<th>Average Wage</th>
<th>Median Family Income</th>
<th>Median Household Income</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net Labor Importer</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Eagle County</td>
<td>$640,000</td>
<td>$200,000</td>
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<tr>
<td>Pitkin County</td>
<td>$1,700,000</td>
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<td>Summit County</td>
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<tr>
<td><strong>Net Labor Exporter</strong></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Clear Creek County</td>
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<td>Grand County</td>
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<tr>
<td>Lake County</td>
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<td>$85,000</td>
<td>$22,984</td>
<td>$41,652</td>
<td>$36,072</td>
</tr>
</tbody>
</table>

*2004 Average Home Market Values for an 1,800 to 3,000 sq. ft. Detached Single Family Home